

- A) GENERAL: NONE
- B) JAPAN: B DENSAI ✓ ✓ 1600 MON
- C) H. KOREA: NONE
- D) S. KOREA: A RHEE TO CHONG ✓ ✓ 1115 TUES
- E) CHINA: MILITARY A } ✓ ✓ 1530  
MANCHURIA B  
HONG KONG B  
YEN KAI B

- F) INDOCHINA: ✓ A
- G) SIAM: ✓
- H) NONE
- I) BURMA: ✓ B
- J) INDOCHINA: ✓ B
- K) NONE
- L) NONE
- M) NONE

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SECTION III

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OFFICE OF REPORTS AND ESTIMATES  
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WORKING PAPER

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INTELLIGENCE HIGHLIGHTS NO. 54

1 June - 7 June 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

A victory for the moderates at the recent Electrical Workers Union convention indicates some advance in the struggle against Communist influence in Japanese trade unions (p. 2).

Although President Rhee has apparently called a halt to his propaganda program to delay US troop withdrawal from Korea, he will have difficulty restoring the confidence in the Republic destroyed during that campaign (p. 2). Meanwhile, the National Assembly has asked the resignation of Rhee's cabinet for the second time within a week (p. 3).

Communist units south of the Yangtze have paused in their push on South China to await reinforcement. Although guerrilla groups deep in the Nationalist rear will probably expand operations, no spectacular advances on the main fronts are expected for a few weeks (p. 3). Meanwhile, CCP tactics apparently call for the start of a propaganda campaign regarding Hong Kong and the revival of foreign trade with Manchuria, perhaps through the newly-opened port of Yingkow (p. 4).

Recommendations for a revision of military strategy in Indochina, hinged on a strong defense of the Sino-Tonkinese border, are to be forwarded to France by General Revers, Army Chief of Staff (p. 5).

Legislation permitting the exploitation of Burmese natural resources by foreign capital, to be introduced in the present session of Parliament, may indicate a relaxation of the Government's strict socialism (p. 6).

The question of whether the Republicans will be united or divided upon their restoration to Jogjakarta may be decided at a meeting in Atjeh this week between Premier Hatta and the Government-in-Exile (p. 8).

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The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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## SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

JAPAN

Moderates capture electrical workers--The struggle against Communist influence in Japanese trade unions made a notable advance when Democratization League (Mindō) affiliates in DENSAN (the All Japan Electric Industry Workers Union, a major center of Communist Union strength) were able to dominate last week's union convention. Not only was the Mindō element able to secure control of the newly-elected Central Executive Committee and to wrest the leadership from Communists but it also won a majority on significant policy issues which developed on the floor of the convention. Key Mindō victories were the rejection of Communist-engineered regional strike tactics, defeat of a Communist-sponsored bid for Densan affiliation with the WFTU, and adoption of a ban on political party dominance of union activities. Mindō influence in the convention was not sufficient, however, to secure adoption of a proposal for Densan secession from the Communist-dominated National Council of Industrial Unions (NCIU) nor to prevent adoption of leftist-sponsored wage revision demands. Although the margin of Mindō superiority in the convention was at all points quite limited, Mindō control of the Central Executive Committee ensures a moderate Densan influence in the Japanese labor picture for the immediate future.

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KOREA

Rhee halts troop retention pressure--During last May, officials of the Korean Republic approached US officials in Seoul and Washington to state that the Republic desired a delay in the withdrawal of US troops. On 1 June, Chough Byung Ok, Korean observer at Lake Success, approached US delegate Austin with a request that withdrawal be delayed until July 1950. Chough later cabled President Rhee asking for authority to negotiate the issue in Washington. This week, however, President Rhee informed Ambassador Muccio that Chough had been instructed to refrain from pressing for troop retention. Chough was informed that retention of a large US military force in Korea did not "mean much" and that instead a statement committing the US to "stand by" Korea would be more effective and preferable.

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Rhee thus appears to have abandoned his attempt to postpone withdrawal but he probably will continue to press the US for a strong defense commitment. There are indications, however, that he will cease emphasis of the vulnerability of the Republic to Communist aggression in future attempts to

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obtain such US assurances. Rhee is now endeavoring to restore the Korean morale which was so badly shaken by his May propaganda campaign. It is doubtful, however, that he will be able to dispel completely the panic that campaign generated and tension probably will continue in Seoul as US troops withdrawal progresses.

Cabinet shuffle fails to appease Assembly--An acute crisis in relations between the administration and the National Assembly threatens a complete breakdown of Assembly action on critical pending legislation. Executive-Assembly friction has been constant since the founding of the Republic but it reached a new high on 7 June when, for the second time within a week, the Assembly passed a resolution demanding the resignation of the entire Rhee cabinet. The second resolution included a statement that the Assembly would refuse to discuss the National Budget Bill and any other bills presented by the Government until the Assembly demand was accepted. A cabinet shuffle following the first resolution, which effected the resignation of the controversial Commerce and Industry Minister, Louise Yim, and Minister of Justice Lee In, failed to placate Assembly members.

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Assembly resentment over Rhee's arrest of three of the younger "progressives" during the May recess and indignation over illegal assessments collected by a Rhee-appointed provincial governor precipitated the criticism. The Assembly's first target was the Home Ministry but the attack was soon broadened to include the entire Executive Branch. This is not the first time that the Assembly has censured the Executive Branch and attempted to invade the President's constitutional prerogatives and, in less critical times, the Assembly might safely indulge in temporary legislative stoppages. Although the issue may soon be resolved by compromise, a prolonged breakdown at this critical period might lead Rhee to declare a state of emergency and rule by decree.

#### CHINA

Lull in the battle--Major military activity in China has been suspended, as Communist units to the south of the Yangtze Valley pause to regroup and await reinforcements from the north. The Nationalists continue to withdraw their Yangtze forces to South China and Taiwan, where they hope to continue resistance. They have evacuated Tsingtao, last Kuomintang holding in North China, and that former US Navy anchorage has been occupied by the Communists. The Communists also occupied Yulin on the Shensi-Suiyuan border, but scored no significant advances in either southern Shensi or in South-central China, where the forces of Chen Yi, following their occupation of Shanghai, are reportedly moving southwestward along the

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Chekiang-Kiangsi railway. Liu Po-Cheng's main force is now near Yungfeng in central Kiangsi and Lin Piao's troops are moving slowly southward along the railway from Wuchang. Changsha, the only large Yangtze valley city not now occupied by the Communists, has reportedly been abandoned by Pai Chung-hsi and will probably fall shortly.

While the Communists are not now attempting to join battle with the retreating Nationalists, they are almost certainly preparing for future operations against south and southeast China, as well as Taiwan. Nationalist defensive forces in these areas have been increased by the successful withdrawal of men and materiel from the Yangtze. Nevertheless, the Nationalists are not capable of withstanding a sustained offensive by Communist regulars on the mainland. Even in their present condition, however, the Nationalists can give Communist advance elements pause until strong regular units have been brought into position for attack. During this period, which will probably continue for several weeks and could conceivably last several months, Communist guerrilla units will extend their operations in Kwangtung and perhaps begin to harass the approaches to Canton. The Communists will also increase underground activities in all areas into which they intend to move eventually, a program which has already met with reported success on Taiwan.

Communist intentions regarding Hong Kong--The Chinese Communists are determined to take Hong Kong and probably will succeed in their intent eventually, although not during 1949. The advantages of foreign trade offered by a stable Hong Kong under British rule will not outweigh the Communist nationalistic sentiment for retrocession of the Colony in the long run. Already there are indications that the Communists are about to launch a Hong Kong propaganda campaign. The Communists would prefer to take the Colony without recourse to armed attack, and, following the conquest of South China, they probably will initiate discussions with the UK for transfer of authority over the Colony, perhaps in connection with negotiations for recognition of the new regime in China. Should negotiations prove tedious, the Communists probably will apply various pressures tending to paralyze Hong Kong's normal activities, such as strikes with the aid of the strong Communist underground and sympathetic labor elements and sabotage of the critical water supply. Although flushed with victory, the Communists would probably risk a military attack to capture Hong Kong only as a last resort.

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Manchurian Foreign Trade--In the past two months the Chinese Communists have taken steps aimed at recovery in Manchuria, where stagnation of trade has brought about a depressed economy. In late April the CCP press announced a revision of Manchurian provincial boundaries, designed "better to suit the needs of economic reconstruction." A subsequent reshuffle of the top financial and economic posts in the Northeast Administration included the appointment

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of CCP Politburo member KAO Kang as Director of the Northeast Finance and Economics Commission, evidence of the importance which the CCP now attaches to that post. Reportedly, the CCP is organizing export monopolies for Manchurian bristles and talcum and the CCP radio announced in late May that the port of Yingkow had been opened to foreign shipping "in order to develop Manchurian trade with foreign countries."

There is no evidence that these measures have been taken in order to weaken Soviet influence in Manchuria. The CCP in Manchuria has apparently remained completely subservient to Soviet influence, and has been careful not to criticize Soviet actions. Because of this subservience, the USSR is likely to allow Dairen to be reopened to international shipping sometime before the conclusion of the Japanese Peace Treaty. When the Soviet garrison withdraws from Dairen, effective organizations will remain behind to guarantee continued economic control. As insurance of continued control, the USSR recently extended the boundary of the Port Arthur Naval Base Area (which is to remain under Soviet control until 1975) at the expense of the Dairen area (which is to come under eventual Chinese administrative control).

The Soviet reopening of Dairen, without which there is little prospect for any recovery of Manchurian trade, will be made as a gesture designed to consolidate CCP loyalty to the USSR. Soviet propaganda will represent the withdrawal, which in any case would be legally required after conclusion of a Japanese Peace Treaty, as a voluntary renunciation of USSR rights.

Old warlord in new office--YEN Hsi-shan's appointment as Premier reveals the nearly total bankruptcy of Acting President LI Tsung-jen's regime. LI's earlier nomination of KMT elder CHU Cheng was rejected by the Legislative Yuan because of opposition from right-wing groups, and the subsequent appointment of YEN was made with great reluctance. A provincial warlord with a dubious record of loyalty to the National Government, YEN recently has been supported by the CC Clique and CHIANG Kai-shek, with whom he reportedly has conferred on selection of a new cabinet. YEN's appointment therefore marks a further loss of power for LI in his struggle with CHIANG. Although he has promised to cooperate with LI and to defend southwest China, YEN and the majority of Nationalist officials probably will seek sanctuary in Taiwan when Canton is threatened by the Communists. However, should YEN support LI's plan to attempt to establish the capital in Chungking, his action probably would reflect CHIANG's belief that only a government located in mainland China could receive any international support.

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#### INDOCHINA

Plans for revised French strategy--The French Chief of Staff, General Revers, has decided to recommend that defense of the Sino-Tonkinese border be considered the primary military objective in northern Indochina.

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In order to secure the border, Revers plans to concentrate forces on a line from Moncay to Langson (northeast Tonkin), as he considers that the greatest threat from China exists on the Kwangsi-Kwangtung frontier. The accomplishment of this plan will require the depletion of French garrisons in the Laokay region of northwest Tonkin, pending the arrival of "approximately 30,000" reinforcements and replacements for the Tonkin campaign. It is expected that at least the area of Backan, due north of Hanoi, will be abandoned to the Viet Minh. The balance of General Revers' plan includes securing control of the triangular Red River delta area (enclosed roughly by Namdinh, Viettri, and Hongay). This operation may be attempted in the autumn dry season (October-November) by the forces presently in Tonkin, exclusive of expected reinforcements for the border area. However, the Red River campaign will not be executed until the defense of the northern frontier has been assured.

Meanwhile, the proposed French strategy will relegate Cochinchina and Annam to secondary importance despite the relative insecurity of these two areas. The new Vietnamese government and army will be expected to police these regions and eliminate resistance activity. For this purpose, Vietnamese forces will be equipped only with small quantities of arms.

It appears that General Revers' recommendations of a determined effort to defend the Chinese frontier will receive serious consideration in Paris. In order to supply sufficient men and materiel, France must "scrape the bottom of the barrel" in the French Zone of Germany and especially in North Africa. Thus, troop reinforcements required for the execution of the Revers plan may increase the French difficulties in meeting their commitments to Western Union defense.

#### BURMA

Government plans "softer" socialism--The Burmese Cabinet plans to present Parliament, which convened on 7 June, with a draft "Union Mineral Resources Bill" permitting private foreign capital to participate in the development of Burma's mineral resources at the discretion of the Government. This proposed legislation contravenes the Burmese Constitution of 1948, which explicitly provides that all resources shall be developed either by the state or by Burmese-controlled companies specifically authorized by an Act of Parliament. The Cabinet's decision to sponsor such a bill indicates a conscious shift from strict state socialism towards closer cooperation with the West. Although the action is undoubtedly motivated in part by opportunism, and perhaps a "nothing to lose" attitude, it nevertheless reflects a growing appreciation by the Burmese Government of its inability

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to create a utopia through its own unaided efforts.

More important, the move may portend further changes of a similar nature. In this respect, the US may be requested to extend assistance to Burma either from public or private sources. US aid to Europe and the President's Point IV program has so impressed the Burmese Government that its Ministry of Planning is already reported to be contemplating the utilization of US technical and scientific aid in preparing its development plans. A further indication of the Burmese Government's attitude is detected in a recent approach to the US wherein the Burmese expressed a keen desire to participate in any joint effort of "like-minded" nations to frame a common policy towards the Chinese Communists. However, a reversal of past policy by the Burmese will encounter considerable opposition from the more extreme leftist elements presently supporting the Government and sufficient Parliamentary support for the proposed changes is not assured. Furthermore, under existing conditions of disorder, the chances of attracting foreign capital are slight. Nevertheless, the new Burmese thinking, which implies the necessity for international cooperation, somewhat brightens the prospect for easing Burma's pressing political and economic problems.

## NEWS NOTE

Karen objectives--Although the military phase of the Karen-Burma struggle has attracted widespread attention, its political aspects have gone practically unnoticed. The Karens have proclaimed the establishment of a separate "state" in eastern Burma, and have announced an eleven-point political program. This program demands a return to the "old" democracy, which provides for freedom of elections, speech, worship, enterprise and the right to own property. It envisions one law, fairly administered, for all. The Karens also advocate financial reforms, a housing program, increased imports and exports, encouragement of foreign capital and increased participation in foreign trade, and the honoring of all foreign commitments.

The significance of these statements is not necessarily related to the problem of questionable Karen capabilities to maintain a separate state. Rather, they are a fairly accurate reflection of Karen convictions and aspirations, and as such, probably indicate the Karen position at any future peace negotiations with the Burmese Government.

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Update

INDONESIA

Division among the Republicans--The Republicans expect to be installed in Jogjakarta by the end of June. In order to facilitate governmental activities after restoration, Hatta and Sukarno have been conferring with all principal Republican political leaders. Although the Republicans were united in their support of Hatta-Sukarno leadership during the recent preliminary discussions with the Dutch, the reactions to the agreement reached at Batavia have indicated differences which must be reconciled before the Republic can operate successfully. The rightist Masjoemi and Nationalist Parties have assented to the Sukarno-Hatta policy pending developments arising out of future implementation. However, it is believed the Republican left-wing party, the Democratic Front, will oppose the Batavia agreement as incorporating unnecessary and undesirable concessions on the part of the Republic. The Socialist Party has not yet formally criticized the agreement but it is reliably reported that the party's leader, Sjahrir, personally feels that the Republicans should have demanded broader and more specific Dutch commitments as to the Republic's position in the USI.

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There have been persistent rumors that the emergency Republican Government-in-Exile in Sumatra will not support the Batavia agreement because it does not include Dutch recognition of Republican authority over Java, Sumatra, and adjacent islands. Also, the Sumatran group feels that the Republican Army should not be withdrawn from its present positions until a permanent Indonesian Federal Government has been finally created.

In order to reconcile the differences that exist, Hatta recently decided to visit the Premier of the emergency government, Sjafruddin, at Atjeh. Accompanied by several other Republican leaders, Hatta left Batavia on 5 June for a four-day conference with this leader. Success or failure in forming a cohesive unit from the several Republican factions may depend on the outcome of the Atjeh meeting.

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